FDIC State Profile

Spring 2004

New Hampshire

New Hampshire experienced a moderate decline in employment during the 2001 recession and began to recover early in 2003.

- Revised data indicate that New Hampshire's economy was weaker on average during the second half of 2002 and first half of 2003 than originally reported. Since that time, however, greater progress has been made than originally estimated, leaving year-end 2003 employment levels comfortably above original estimates (See Chart 1). January 2004 levels show another major job loss, which may be associated with the month's severely cold weather or other factors that may prove transitory.

- The upward revisions in payroll employment at year end were widely distributed across business sectors. Construction employment was revised significantly higher, although most manufacturing sectors were revised lower. The downward revisions within manufacturing included all of the high-tech sectors, and were especially large in the computer, software, and other electronic categories. Service employment, in contrast, was revised higher across a broad swath of industries, with most of the revisions being relatively small.

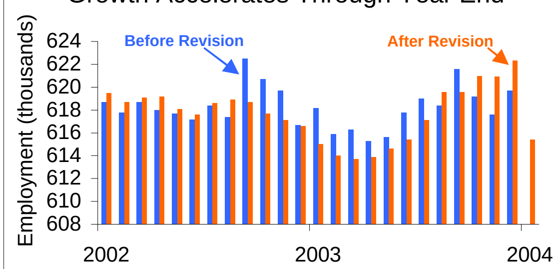
The unemployment rate for New Hampshire was little changed by the annual benchmark revisions.

- The pattern for 2003 after revision is more stable, although that is a characteristic in general of the revision process. In December, the rate was unrevised at 4.1 percent and remained at that level in January. This remains under the 2002 peak and compares favorably to the national rate of 5.6 percent. In general, New Hampshire has the lowest unemployment rate in New England (See Chart 2).

Unemployment insurance claims begin to reflect an improving jobs market.

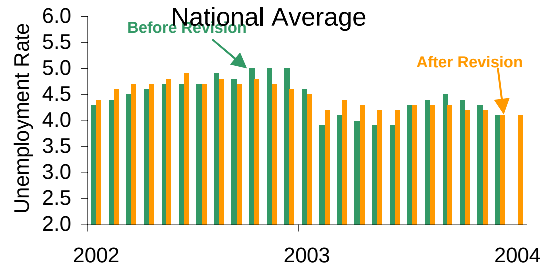
- Initial unemployment insurance claims in New Hampshire provide another measure of labor market performance. The period of maximum distress occurred during the recession of 2001 when new claims were almost triple the pre-recession period. Subsequently, however, solid progress was made in bringing claims down. However, at year-end 2003, they remained at a level almost twice that of the pre-recession period (See Chart 3).

Chart 1: Payroll Employment Revised Lower in New Hampshire During First Half of 2003; Job Growth Accelerates Through Year End



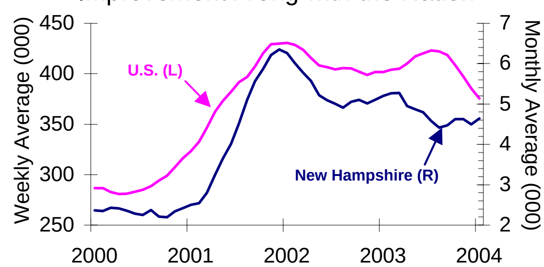
Source: Bureau of Labor Statistics of the Department of Labor, Haver Analytics. Data seasonally adjusted.

Chart 2: Unemployment Rate in New Hampshire is Little Changed Upon Revision Over the Past Year; Remains Well Below National Average



Source: Bureau of Labor Statistics of the Department of Labor, Haver Analytics. Data seasonally adjusted.

Chart 3: New Hampshire's New Unemployment Insurance Claims Continue to Show Gradual Improvement Along with the Nation



Source: Employment and Training Administration of the Department of Labor, Haver Analytics, FDIC

New Hampshire's insured institutions (excluding credit card institutions) saw earnings decline in 2003 under pressure from declining net interest margins.

- Among the state's commercial institutions, the median net interest margin (NIM) declined to 4.34 percent as of December 31, 2003, down from 4.55 percent at year-end 2002. Even with the decline in NIMs, New Hampshire's commercial institutions posted the second highest NIMs in the New England area (behind Vermont), a result of relatively low funding costs and stronger asset yields. Savings institutions also continued to experience NIM pressure. Their margins fell to 4.02 percent as of December 31, 2003, a 13-basis point decline during the year. New Hampshire's savings institutions reported the highest NIMs among New England thrifts based on lower funding costs (See Chart 4).

- New Hampshire's commercial institutions reported a median return on assets (ROA) of 0.82 percent as of December 31, 2003, down only three basis points since the end of 2002. The decline in net interest income was nearly offset by higher levels of noninterest income and gains from improved operating efficiencies. Low loan-loss provision expenses and gains on the sale of securities, representing 13 percent of net income, also helped to support profitability. Utilizing gains on the sale of securities may not be viable in the long term, as unrealized gains on available for sale securities in the commercial institutions was almost zero as of December 31, 2003.

- The state's savings institutions posted a median ROA of 0.92 percent at the end of 2003, a 15-basis point decrease since year-end 2002. Profitability was affected by declining levels of net interest and noninterest income. The savings institutions posted low loan-loss provision expenses, improvements in operating efficiencies, and gains on the sale of securities representing 11 percent of net income. While positively affecting the bottom line, these improvements were not sufficient to offset the declines in income. New Hampshire's savings institutions report unrealized gains at 0.79 percent of the available for sale portfolio. This ratio has fallen sharply in the past year as gains were utilized to support profitability and interest rates rose modestly.

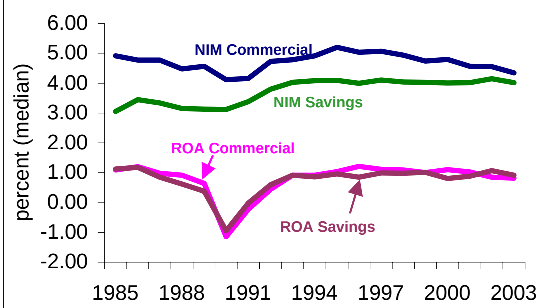
Interest rate risk remains a concern for New Hampshire's institutions as concentrations of fixed-rate, long-term assets continue to increase.

- The conventional 30-year mortgage rate has declined significantly over the past several years and is still historically low. According to the Mortgage Bankers Association, on a national basis, the level of adjustable rate mortgages has increased from only about 13.5 percent of originations in December 2002 to almost 27 percent as of December 2003. While this ultimately may allow insured institutions to reprice some assets, they still hold large volumes of long-term assets with low fixed rates.

- Since the late 1990s, asset maturities lengthened at many institutions, began to moderate late in 2002, and increased again in 2003. As of December 31, 2003, the median ratio of long-term assets to total assets was historically high at just over 25 percent. While this is the lowest long-term asset ratio in New England, it represents a median growth of over 25 percent in the past year as institutions sought higher-yielding assets to augment a declining net interest margin. With the large volume of long-term assets on the books, insured institutions may be faced with a mismatch of asset and liability repricing. Net interest margin compression may occur, when short-term interest rates increase, as liabilities reprice at a faster rate than assets (See Chart 5).

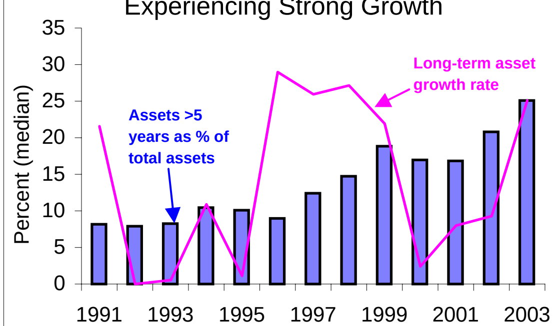
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent 57 percent of insured institutions in New Hampshire, and residential real estate loans comprised almost 52 percent of their average loan portfolio as of December 31, 2003.

Chart 4: Earnings Favorable But NIMs Show Some Pressure



Source: Bank and Thrift Call Reports, Data as of 4th quarter.

Chart 5: Long-Term Asset Concentrations Still Experiencing Strong Growth



Source: Bank Call Reports, Data as of 4th quarter.

New Hampshire at a Glance

General Information	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Institutions (#)	31	32	34	35	38
Total Assets (in thousands)	29,691,868	29,392,762	35,449,707	31,645,878	30,623,684
New Institutions (# < 3 years)	0	0	2	2	4
New Institutions (# < 9 years)	3	3	4	5	5

Capital	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Tier 1 Leverage (median)	8.73	8.62	8.89	8.51	8.32

Asset Quality	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Past-Due and Nonaccrual (median %)	0.94%	1.34%	1.40%	1.37%	1.36%
Past-Due and Nonaccrual >= 5%	1	2	2	1	2
ALLL/Total Loans (median %)	1.06%	1.07%	1.16%	1.25%	1.29%
ALLL/Noncurrent Loans (median multiple)	2.87	3.06	2.88	4.09	3.52
Net Loan Losses/Loans (aggregate)	6.57%	12.60%	6.29%	4.78%	2.82%

Earnings	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Unprofitable Institutions (#)	1	1	2	3	
Percent Unprofitable	0.00%	3.13%	2.94%	5.71%	7.89%
Return on Assets (median %)	0.89	0.95	0.90	0.95	1.02
25th Percentile	0.68	0.70	0.67	0.65	0.74
Net Interest Margin (median %)	4.15%	4.38%	4.21%	4.22%	4.11%
Yield on Earning Assets (median)	5.65%	6.52%	7.59%	7.95%	7.65%
Cost of Funding Earning Assets (median)	1.55%	2.21%	3.45%	3.80%	3.43%
Provisions to Avg. Assets (median)	0.08%	0.10%	0.08%	0.10%	0.12%
Noninterest Income to Avg. Assets (median)	0.58%	0.61%	0.55%	0.44%	0.51%
Overhead to Avg. Assets (median)	2.98%	3.11%	3.12%	3.17%	3.10%

Liquidity/Sensitivity	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
Loans to Deposits (median %)	80.27%	74.89%	79.74%	82.25%	79.61%
Loans to Assets (median %)	66.29%	63.68%	67.93%	68.89%	66.22%
Brokered Deposits (# of Institutions)	5	2	1	3	4
Bro. Deps./Assets (median for above inst.)	3.82%	25.77%	50.93%	1.12%	1.45%
Noncore Funding to Assets (median)	17.90%	15.24%	15.54%	14.74%	12.64%
Core Funding to Assets (median)	69.83%	71.77%	70.59%	72.59%	75.70%

Bank Class	Dec-03	Dec-02	Dec-01	Dec-00	Dec-99
State Nonmember	9	9	9	10	12
National	4	5	6	6	6
State Member	1	1	0	0	1
S&L	1	1	1	1	1
Savings Bank	5	5	6	6	6
Stock and Mutual SB	11	11	12	12	12

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	22	20,370,141	70.97%	68.61%
Portsmouth-Rochester NH-ME PMSA	4	876,430	12.90%	2.95%
Manchester NH PMSA	2	7,900,791	6.45%	26.61%
Lawrence MA-NH PMSA	2	533,153	6.45%	1.80%
Nashua NH PMSA	1	11,353	3.23%	0.04%